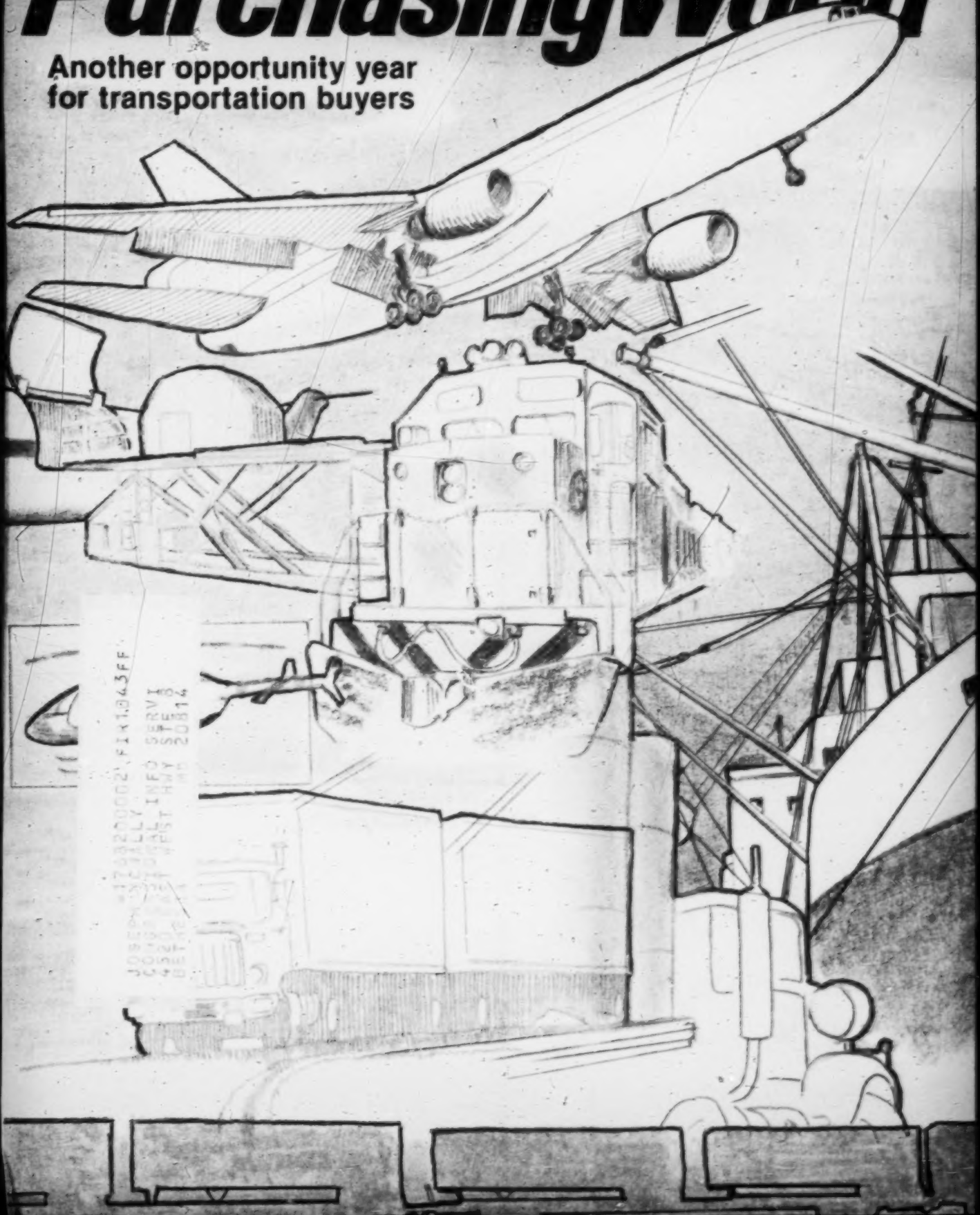
PurchasingWorld

MAR/1985

Another opportunity year for transportation buyers



PurchasingWorld.

Helping you manage the business of buying

Vol. 29 No. 3-March, 1985

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Photo courtesy of Federal Express

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PW PREDICTS

Robert S. Reichard, executive editor

Price news better than 1984

First quarter news is exceeding expectations.

Historically, there is a spurt of price increases in the first few months of the year. This is the time most vendors post their annual increases. This year, most price yardsticks are behaving better than in 1984.

The latest NAPM Business Survey Committee Report shows more buyers noting declines than increases. And the gap is widening: 21% declines vs 13% increases at latest report. This contrasts with 13% lower and 12% higher readings last month.

This good news is supported by purchasing executive replies to a special question on budgeted vs actual price increases. Some 39% said first quarter boosts are under budget, compared to 5% who say they are over.

The picture for transportation is equally optimistic. Wharton Econometrics, the big Philadelphia-based economic consulting firm that supplies *PW* with quarterly rate forecasts, has cut its projection for 1985 by almost half from 6% projected last fall to only 3.4% currently.

The latest government forecasts, contained in the new budget message, tell much the same story. Uncle Sam's economists expect about a 4% increase in the all-inclusive GNP price deflator. And the cost-of-living index is expected to run at 4.3% for the year ending in December.

Other developments are adding to the current optimism. The recent weakening of crude oil tags means that 1985 could see an overall decline in refined petroleum products.

Also, agricultural prices on the farm level continue to fall. By the second quarter they are expected to be down 3% from year-ago levels. This suggests supermarket prices will not rise as much as the 2-5% forecasted by the Department of Agriculture.

Another important trend: better-than-anticipated productivity gains. Latest figures show that 1984 ended up with a bit more than 3% advance—enough to hold the rise in critical unit labor costs to 1%.

Fed chairman Paul Volcker sums it up by saying he isn't ready to declare "total victory" over inflation, but he notes that inflation is currently running about as low as it did at the bottom of the 1981-82 recession and during the early stages of recovery.

In short, there is nothing on the horizon to suggest any quickening of the inflation rate—a remarkable feat given the fact that we are now well into the third year of general business growth. If current patterns continue, overall 1985 price increase projections may well be revised downward again.

32% gain in '84 imports will not be repeated

Look for imports from Western Europe to begin flattening out. True, some additional small increases are still likely. But given the combination of trade curbs, a leveling U.S. dollar, and reduced GNP growth, the gains are likely to be a lot smaller than the huge 32% advance of last year.

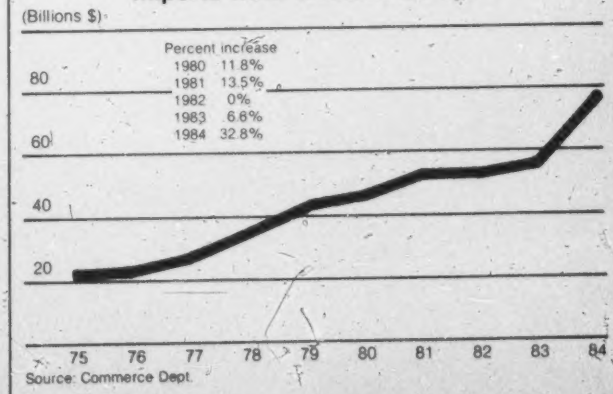
Steel quotas, for one, will certainly have a negative impact on U.S. buyers. In pipe and tube, for example, new Common Market quotas will restrict U.S. sales to only 7.6% of the U.S. market—just about halving 1984's big 14% share. One thing is for sure, incoming totals will be a lot less than the one million ton-plus level of 1984.

Elsewhere in steel, U.S. buyers may have to pay a bit more for stainless sheet and plate as prices in the U.K. increase another 5%. On the other hand, output has been raised so there should be enough to go around, even with improved European demand.

Some boosts have already been noted in silicon, and indications are that they will stick. Bullishness here is caused by very low inventories on the part of both buyers and producers, and by the entry of the Russians into the market on the buyer side.

On a more optimistic note, U.S. buyers should be able to find good buys in the machine tool sector for awhile. Indeed, France's state-backed tool producers are planning a strong sales drive in an effort to counteract Japanese competition. One major producer, Machines Francaises Lourdes, is reporting a big jump in out-of-country sales—second half 1984 tool exports accounted for over 50% of its overall business. Confirming this are reports of big deals with both GE and Westinghouse.

Imports from Western Europe



Source: Commerce Dept.

PW PREDICTS

Chemicals

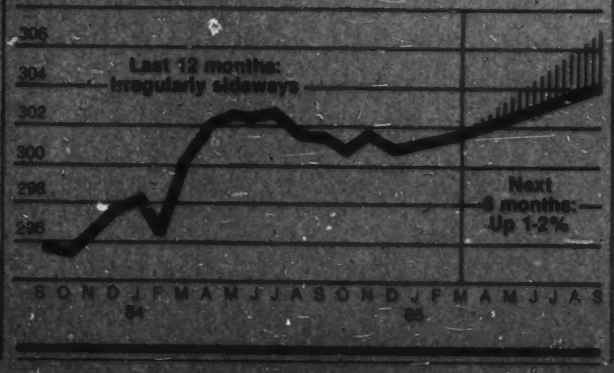
CURRENT SITUATION: The combination of overcapacity, import competition, and low feedstock costs is putting a damper on price hikes—with little or no overall change noted in the all-inclusive chemicals and allied products price average over the past 12 months. Industrial chemical tags are actually 2% below two years ago. Sharp discounts are noted on virtually all commodity resins. However, **inorganic chemical averages have been advancing about 3% over last year.**

DEMAND: Only modest advances are anticipated this year—**with total industry output expected to be up only 4%**—well under the near 7% increase of 1984. Performances will be uneven—with these output changes seen: benzene (−3%), phenol (+5%), phthalic anhydride (+3%), styrene (−10%), xylene (+2%), ammonia (+5%), caustic soda (+2%), sulphuric acid (+3%), ethylene (no change), propylene (+4%). **Plastic resin production will also show a modest 3-4% increase.**

SUPPLY: It looks like another problem-free year. The industry's **overall operating rate is expected to climb only 1% over last year's low 72%** as new capacity offsets much of the additional production. These utilization rates are projected for 1985: aniline (70%), benzene (60%), phthalic anhydride (61%), xylene (48%), caustic soda (74%), acetic acid (89%), butadiene (67%), ethylene (79%), methanol (73%), propylene (73%), vinyl chloride (86%), and overall plastic resins (79%).

PRICE OUTLOOK: Buyers will continue to call the signals. In combination with low operating rates there is intensifying overseas competition, and lower costs. The Chemical Manufacturers Association sees only 4-5% increases in labor, material, and energy costs. This all points to another good year for chemical buyers—**with overall averages up 3% for the year.**

Chemicals & products
(Index: 1967 = 100)



Steel

Demand is beginning to pick up a bit. But this improved buying has not affected prices yet. Quotes remain at or near the low levels hit at the end of last year. Reason: There are still plenty of cheap imports floating around—enough to keep average transaction prices some 20-30% under list levels—with flat rolled product discounts running in the 100-125/ton range. This situation is likely to persist through early spring. Beyond that, however, tags should begin to firm—provided that (1) imports drop to 22 million tons (vs 26 million last year) and (2) domestic consumption holds up. But even then the boosts will be modest. Price averages will be hard put to rise by more than 5% by year end.

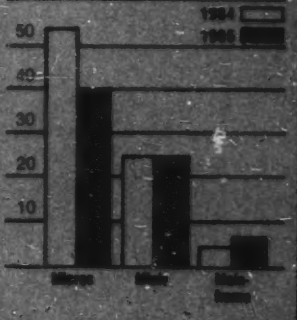
Copper

Markets have edged up from the low 60¢/lb levels of late 1984, and fundamentals are looking a bit better. Thus, (1) inventories are down substantially, especially on the exchange level, (2) much of the 1985 domestic producer metal is now committed, and (3) some snugness is noted in good quality metal. Seasonal demand fluctuations in the consumer sector should help too. And the outlook for 1985 looks good. Usage is likely to rise by as much as 3%. But costs are still a problem—much of the industry will still be operating in the red even if tags do move up into the 70¢/lb by late spring or summer as expected.

Computers

Business is still booming and demand projections for mainframes, minis, and micros are very good. The latter will lead the way—sales this year are expected to reach nearly $14 billion, up almost 40% from 1984. Mini computers won't be far behind—with a 25% jump to $10 billion expected. Also look for continued price declines because of intensifying competition and new technical breakthroughs. Best buys will be in micros as IBM and Apple slug it out for market share. Larger models are heading lower—witness IBM's recent 5% cut in the 308X series.

Computer shipments
(% increase in $)



Machinery and equipment

Price hikes for the first half of 1985 are expected to average out at only 1.5% (3% at annual rate). This is the same level noted in late 1984, and a

PW PREDICTS

Lead

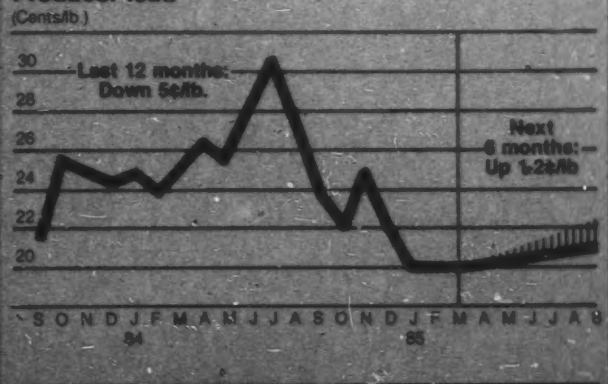
CURRENT SITUATION: The heavy metal is sagging. Prices are now hovering around the low 20¢/lb mark—far from the 28¢/lb high of last fall. Recent **resumption of strike-interrupted U.S. production and low demand have played a major role in the current softness.** Purchases by battery makers (the metal's biggest customer) have been disappointing. Not even recent cold weather has been enough to work off high inventories.

DEMAND: An actual decline could be in the making this year—only about 1.24 million tons expected to be consumed this year—about 2-2.5% under 1984 levels. This reflects the continuing trend toward smaller, longer-lasting batteries and the on-going phaseout of leaded gasoline—something that could cost the metal 60,000 tons in 1985. With these same factors operating over the longer haul, **the average annual increase in consumption over the next five years will be hard pressed to reach the 1% mark.** That would bring total use back up to only 1.26 million tons by 1990, compared to the 1.50 million as recently as 1979.

SUPPLY: Domestic output should take a big jump in 1985—reflecting recent settlement of labor disputes. Primary production could increase 28% to 550 million tons. Secondary output which acted as a buffer against shortages in 1984 could be off 6% (to 590 million tons). Even though imports will drop off some (to just 12% of consumption vs 17% last year), **there will be more than enough lead to go around—with producer inventories rising 75% to 70,000 tons by year end.**

PRICE OUTLOOK: Current bargain-basement levels are likely to persist near-term—as the battery buying season comes to an end. Market fundamentals will also put a lid on tags despite the fact that no one is making money at today's levels.

Producer lead



bit under the 2% hike noted during the first half of that year. Farm equipment will be especially competitive. Ditto, construction equipment, as a major Japanese firm (Komatsu) strives to double and triple its current 6-7% market penetration. The Japanese also remain active in machine tools—many of their products (especially low-end machining centers and turning machines) are priced well under comparable domestic levels.

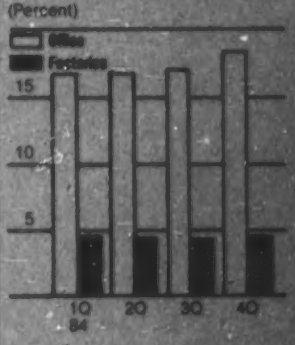
Aluminum

Softness persists despite some sharp domestic production cutbacks. In any event, market ingot remains in the low 50s, and some producers are now aggressively pricing their goods at similar levels. Other signs of weakness: (1) price declines in common alloy sheet, (2) continued import competition, and (3) hefty inventories. It will take at least another six months to get stocks down to normal levels. Price recovery will be slow, with any climb back into the 60¢/lb range at least another quarter or two away.

Office and factory space

There are still plenty of good buys around if vacancies are any indication. A high 14.7% of all downtown area office space is empty, and that figure rises to 18.2% in the suburbs. Sections of the country with exceptionally high office vacancy rates: Columbus (OH), Dallas, Denver, Houston, New Orleans, Oklahoma City, Phoenix, and Sacramento. Factory vacancies also remain high—4.7% on average. Cities with highest rates are Chicago, Houston, Miami, and many cities in California.

Vacancy rates



Energy

Domestic demand gains will slow down to only 2% for 1985—well under half the 5.5% increase for 1984. Reasons: reduced economic growth and continuing conservation. Here's how individual sectors seem to be developing: Oil (1% overall and less than 0.5% for gasoline alone), coal (3-3.5%), nuclear (5-5.5%). Add in OPEC problems and overall price increases are likely to be quite modest. The average energy tab will rise by only 1%—well under the 4% general inflation rate projected for 1985.

Zinc

Some 2¢/lb has been whittled off the price since the

beginning of the year. Other signs of softness: (1) low bids at Mint tenders, (2) persistent discounting by European producers, and (3) ample inventories.

Paper

Paper and paper product prices are taking a breather. But some weakness is apparent in several key areas:

- Linerboard: Discounting off list ranges up to $30/ton.
- Uncoated white paper: Excess capacity and imports have dropped tags as much as $50-60/ton under mid-1984 peaks.
- Market pulp: Sharp discounts off the official $500/ton list are reported.

The decline in linerboard, say some analysts, could also put downward pressure on corrugated cartons—or, at least, keep them from rising. This would be in sharp contrast to last year when this key paper product jumped a hefty 12%.

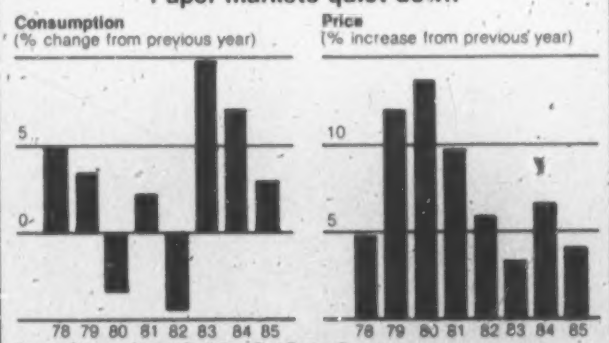
Two other factors calculated to keep prices from getting out of hand: (1) decelerating domestic consumption gains (3% this year vs 7% in 1984) and (2) the strong U.S. dollar which has been inviting imports and cutting down on exports which normally account for 15% of total U.S. production.

Despite this, it would be unrealistic to expect price averages not to rise a bit by the end of this year. Some areas, such as coated papers, are extremely firm and an announced boost in newsprint slated for April is still on.

Also, new capacity, at least on an overall basis, is coming on slowly (only about a 2.3% increase is projected this year). This is slow enough to suggest another year of 95% or higher overall operating rates.

To sum up, throw all the bullish and bearish factors into the hopper and something like a 3% average boost in paper and paper product prices seems likely for the current year. That is pretty much in line with the general inflation rate and a lot less disturbing than last year's hefty 6.7% advance.

Paper markets quiet down



Source: Bureau of Labor Statistics, First Boston Corp.

While it is true that U.S and Free World demand was up strongly in 1984, some slowing is expected—only a 1% advance is seen for the domestic market this year. Rising imports (up 8% last year) could be another drag—offsetting the shutdown of Asarco's Corpus Christi, TX, plant. Upshot: Chances of any major advance are small.

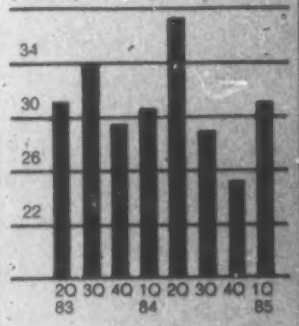
Silver

The precious metal is taking its lumps these days. Close to 30% has been knocked off the going price over the last year. More important, there is little to suggest any rally. 1985 Free World demand will do little more than equal 1984's 374 million ounces, while supply is put at 484 million ounces. That leaves 110 million ounces available for investors—far too much in today's financially unattractive markets. And there is still more production coming on stream. Global increases for 1985 and 1986 are put at 2.5% and 2% respectively. Upshot: a further decline to under $6/oz cannot be ruled out over the next few months.

Polyvinyl chloride

The popular plastic continues to firm—in sharp contrast to persisting softness in other commodity resins. The price for bellwether pipe grade is now at 30-32¢/lb. That's 4-6¢/lb above end levels and about 10¢/lb above the lows of last fall. Several reasons are suggested for the runup—including recent snugness in VM (the basic feedstock) and stronger exports. But another factor is good demand. Last year, for example, shipment advanced a hefty 8%. And preliminary estimates suggest another 4-5% increase for the current year.

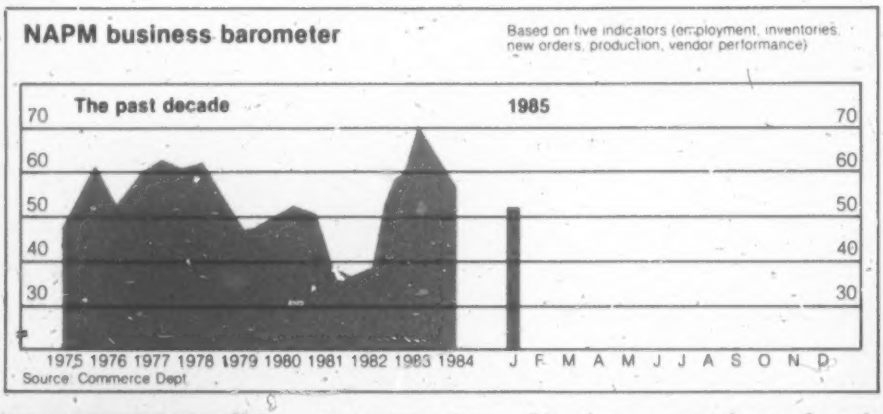
PVC (pipe grade)
(Market price/¢/lb.)



Methanol

Prices, which are down a hefty 40% from their historical highs (to only 36-42¢/gallon), may be about to bottom out. Reasons: Demand has been improving and several older plants have shut down. These factors should help bring supply and demand back into better balance. But any price increase, when it does come, will be modest because the industry is currently operating at only 75% of its potential and imports are still causing problems. One possible market assist is the increased use of methanol as a gasoline additive.

BUSINESS DATATRAK


NAPM business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1985
70
60
50
40
30
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984
J F M A M J J A S O N D
Source: Commerce Dept

KEY ECONOMIC TRENDS

'85 still looks like a good year

Look for the economy to keep on humming right along—certainly for the next few quarters, and probably for the year.

The evidence on this score is now fairly impressive. For one, the all-inclusive NAPM Business Barometer (see accompanying chart) seems to have turned around after last autumn's weakness. At latest report it is running 2.5% above the neutral 50 mark—the highest level since last July.

Equally encouraging are current inventory readings. Stock sales ratios have been reined in after some modest rise in the early part of last year. Indeed, the correction of late 1984 has, in many cases, brought holdings pretty much back to their all-time lows—thus preparing the way for more gains in output.

The edging down of interest rates has to be considered still another positive factor in the business equation. Lower rates, for example should stimulate capital spending, housing, and auto buying.

In any event, it is becoming increasingly apparent that the Fed now believes it can continue pumping money out at a relatively fast clip without rekindling the inflationary fires.

There is an added plus from lower interest rates, too. Other things being equal, lower borrowing costs should reduce upward pressure on the dollar. This will hopefully prevent further import penetration.

Perhaps the most encouraging sign of all has been the resurgence of consumer confidence. This shows up not only in the new consumer optimism surveys, but also in the actual purchases of goods.

Autos are certainly a case in point. For two consecutive months now, car sales have been clocked in at an annual rate of nearly 11 million. No one expects this pace to continue indefinitely, but the fast start does seem to confirm earlier predictions that the industry will sell 10.5 million vehicles this year.

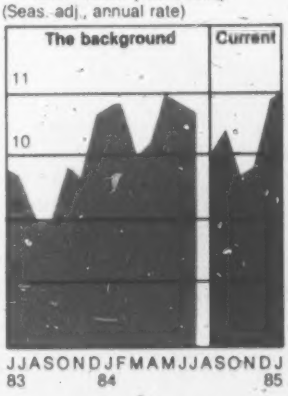
One reason for the booming consumer sales—aside from the confidence factor mentioned above—is the fact the incomes continue to grow. Last year, for example, after-tax incomes advance at an inflation adjusted 6.8% rate. This was the biggest increase in more than a decade. And all signs point to further gains over the next few quarters.

Businessmen also seem more willing to spend. Capital outlay plans still remain strong—fixed business investment in constant dollars is expected to advance 8% this year on top of last year's big 20% jump.

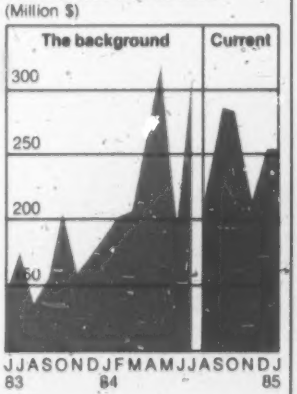
Machine tool orders would seem to confirm this projection. Thus while current readings are a bit under some recent monthly highs (see chart), totals for 1984 ran a hefty 72%

Leading indicators

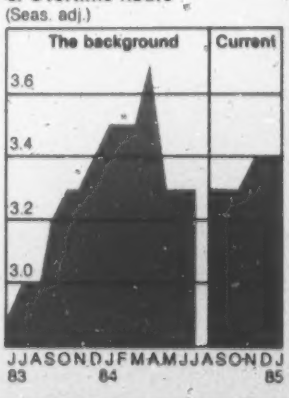
1. Auto sales (Mil units)
(Seas. adj., annual rate)



2. Machine tool orders
(Million $)



3. Overtime hours
(Seas. adj.)



ahead of a year earlier.

And manufacturers remain optimistic. Cincinnati Milacron, the nation's largest tool maker, sees a 20-25% increase in orders.

The fact that factory overtime hours remain on a relatively high plateau (indeed they have actually edged a bit higher over the last month or so) would also seem to confirm the rosy outlook. Combined with recent rises in help wanted advertising, it would seem to suggest that top management is now thinking in terms of steady-to-rising production schedules in the months ahead.

How much of a production gain then? Estimates vary depending on the analyst or econometric model surveyed. But by and large, there is a broad-based consensus that overall industrial production will rise anywhere from 3-5% at annual rate over the next few quarters.

That is encouraging considering that 1985 will be the third straight year of advances, following production gains of 6.5% and 10.5% in 1983 and 1984.

Productivity perking up

U.S. productivity is finally beginning to perk up. Two straight years of solid advance have pushed efficiency more than 6.5% above disappointing 1982 levels (see accompanying chart).

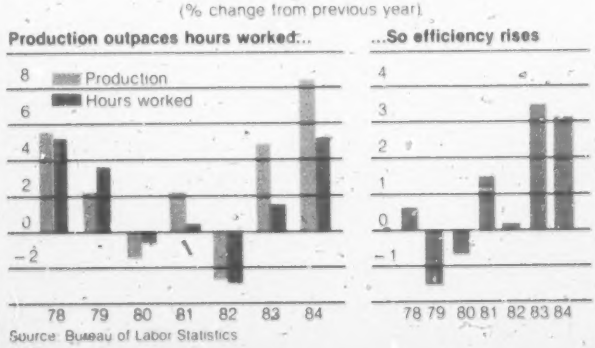
1985 gains, while expected to slow down a bit, will comfortably outpace averages of the last decade or so. Gains for the rest of the 1980s are expected to average 2.5% at annual rate.

Some of the recent advances can be attributed to rising production schedules, which tend to encourage better performance from the available workforce.

Other upward-tugging productivity forces include (1) the gradual installation of more efficient automated equipment, (2) improved labor-management relations which tend to increase worker innovation, and (3) the maturation of the baby boom generation which has transformed relatively inexperienced workers into more productive experienced ones.

Nonform business productivity another good year

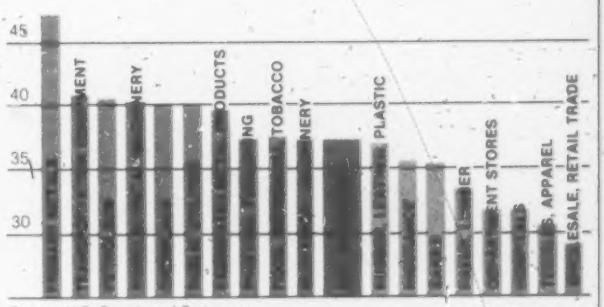
(% change from previous year)



Source: Bureau of Labor Statistics

The fringe benefit bite

(% of total payroll costs)



Source: U.S. Chamber of Commerce

Widespread deregulation has also affected productivity by triggering price competition that has led to cost-cutting and efficiency drives. It also allows business to allocate a bigger portion of cash flow for more efficient production methods than regulatory compliance.

All these developments mark a major reversal from the last decade, and they seem to back up predictions for 2.5% annual productivity gains through the end of the decade.

Fringe benefits under the knife

The slowdown in wage rate increases is spreading to the expensive fringe benefit area, further reducing labor cost pressures on prices.

A new U.S. Chamber of Commerce report finds that these non-paycheck outlays went up only 5.5% in 1983, a rate far below the 8.5% advance in 1982 and even further behind the 8.9% annual advance of the past decade.

Nonetheless, a big chunk of total payrolls continues to be earmarked for fringe benefits—about $7,500 per average employee, or the equivalent of 36.6% of the average payroll.

There is a positive side to this 36.6% figure. It represents a fractional drop from the 36.7% reading of the previous year, suggesting that fringes are now moving up more slowly than hourly pay rates and salaries.

This change is due, in part, to the new hold-the-line competitive business climate and a growing realization that caps have to be put on such "extras" as runaway health costs.

Meanwhile, the latest fringe benefit survey reveals some wide diversity among the various industries. Overall percentage of total payroll costs earmarked for fringe benefits vary from a high of 47.1% in primary metals to a low of 29.0% in wholesale and retail trade.

In general, service industries tend to have lower fringes—although one or two manufacturing sectors are also near the bottom of the scale. These include paper, textiles, and apparel (see accompanying chart).

CURRENT PRICES

Some fall off in prices recently

Industrial producer prices have edged lower again, falling about 2% (2.5% at annual rate).

But these averages could be somewhat deceptive because most of the decline was due to the significant energy drop of 1.7% which was spearheaded by new declines in a wide range of products including gasoline, home heating oil, natural gas, liquid petroleum gas, kerosene, crude petroleum, and diesel fuel.

Factor out this exceptionally soft sector and a much more mixed price pattern appears.

Both organic and inorganic chemical increases helped offset the 1% decline in plastic resins.

The same uneven pattern is apparent in metals

This month's breakdown

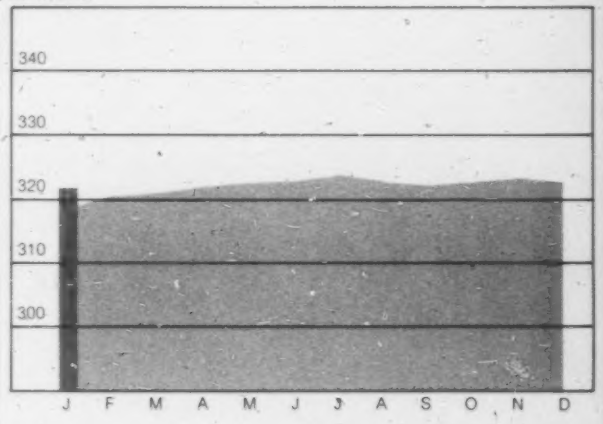
	Latest level (Jan.)	% change from: Month ago	Year ago
Bearings	345.8	0.4	2.9
Bolts, nuts, etc	282.9	1.0	4.4
Chemicals, inorganic	299.3	0.7	3.6
Chemicals, organic	354.7	0.8	−5.6
Concrete products	314.8	0.9	3.2
Corrugated cartons	281.4	0.0	12.5
Cutting tools, small	286.0	0.4	2.2
Electric lamps (bulbs)	339.6	−0.6	0.7
Electronic components	197.9	0.5	4.7
Fans and blowers	357.0	1.6	4.5
Foundry and forge products	323.6	0.1	2.8
Fuel oil (residual)	1127.8	−0.2	3.4
Furniture, commercial	300.1	0.1	2.3
Gasoline	531.3	−4.2	−6.7
Glass, flat	221.0	−1.3	−3.7
Glass containers	363.7	−0.1	3.7
Gypsum products	328.5	−0.2	0.0
Hand tools	369.6	1.1	4.9
Hand tools, power driven	229.5	1.3	3.9
Industrial furnaces	381.7	0.2	3.1
Integrating and measuring instruments	229.9	−0.4	2.6
Internal combustion engines	345.7	0.3	2.2
Lubricating oil	794.5	0.0	−0.1
Lumber millwork	312.4	0.0	1.2
Material handling equipment	292.4	0.1	1.9
Metal containers	357.6	0.0	3.9
Metal mill shapes (nonferrous)	312.9	−0.8	−1.7
Metal tanks	304.8	−0.5	−0.1
Motors and generators	348.9	2.0	3.5
Motor trucks	294.4	1.7	5.0
Office and store equipment	153.7	0.5	−1.2
Paperboard	288.9	−1.2	10.2
Paper boxes and shipping containers	273.4	0.3	8.3
Paper office supplies	244.6	0.5	5.7
Paint	278.2	0.3	4.7
Plastic resins	302.9	−1.4	−0.8
Precision measuring tools	255.9	0.4	4.3
Pumps and compressors	353.2	0.3	1.9
Refractories	367.0	0.1	3.7
Rubber belts and belting	342.3	−0.6	−0.5
Scales and balances	233.4	0.3	2.2
Steel products	364.6	−0.1	1.5
Switchgear	275.6	0.3	1.3
Textiles, synthetic fibers	157.6	0.1	−1.0
Textiles, gray fabrics	153.5	−0.1	1.6
Tires and tubes	245.1	0.6	0.4
Transformers and power regulators	229.9	0.3	3.4
Welding equipment	285.7	0.2	1.3
Wire and cable	201.2	0.0	0.0

Industrial prices

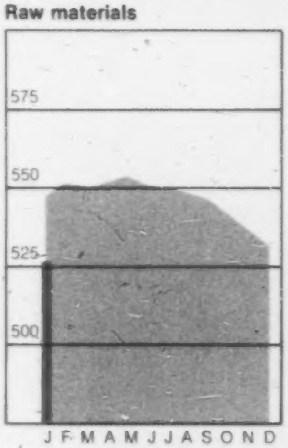
(Index: 1967 = 100)

1984 ■ 1985 ■

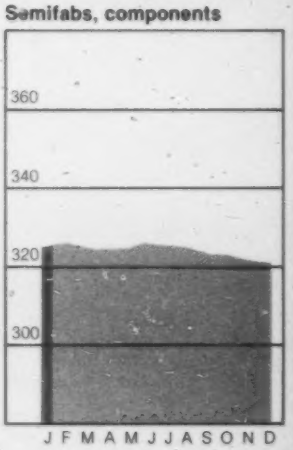
All items



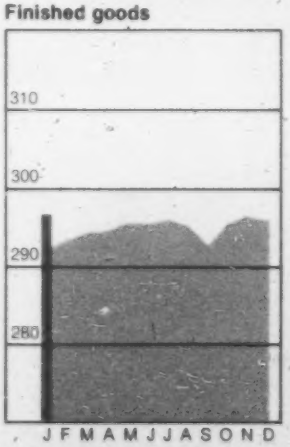
Raw materials



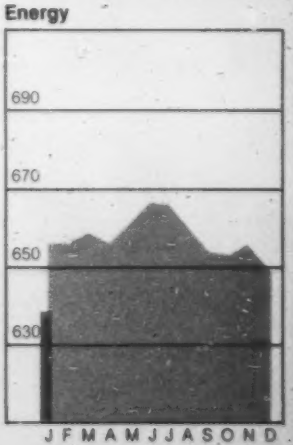
Semifabs, components



Finished goods



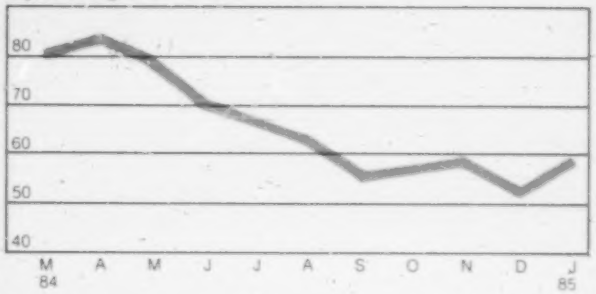
Energy



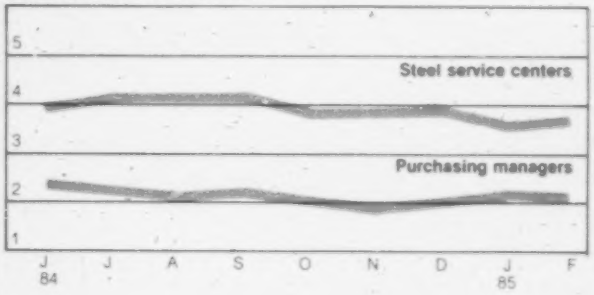
Source: Bureau of Labor Statistics

Steel

Operating rates

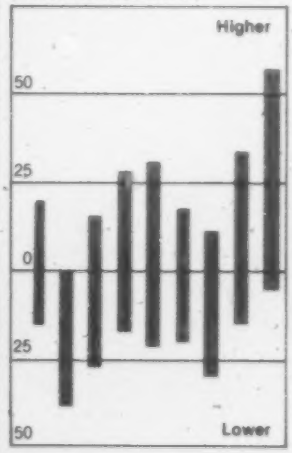


Inventories (months supply on hand)

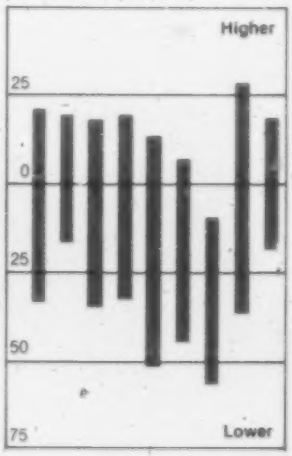


Demand

Service centers incoming orders
(Percent of respondents)



Steel buyer purchase
(Percent of respondents)



Import prices (compared to domestic)

Steel buyers

Above	7%
Same	22%
Slightly below	76%
Substantially below	0%

Service centers (carbon)

Above	0%
Same	17%
5-10% below	73%
10-20% below	10%
Over 20% below	0%

Source: Steel Service Center Institute, NAPM Steel Buyers Committee

as increases in copper were offset by declines in lead and steel. True, steel is running ahead of last year, but this is probably an exaggeration in light of the heavy discounting.

Offsetting moves were also noted in construction materials. Increases in asphalt paving material, plumbing fixtures, and asbestos shingles were balanced out by falloffs in softwood, lumber, plywood, and non-ferrous wire and cable.

On the other hand, there was some tendency for prices to inch ahead in the capital goods sector where motor vehicles, fans and blowers, food product machinery, construction equipment, and office machinery all managed to move up. Ditto, in some component parts, most notably machine tool parts, electric motors, generators, bearings, and fasteners.

Despite this upward drift in some of these more highly fabricated sectors, price averages continue to exceed expectations.

The year-to-date gains for the overall industrial producer price index is put at a miniscule 0.3%, a remarkable performance considering we are now well into the third straight year of business recovery.

STEEL SCENE

Some optimism seen in steel buying

An improving business trend is translating into a brightening steel outlook.

Some 57% of distributors responding to a new Steel Service Center Institute (SSCI) survey, for example, anticipate a rise in incoming orders over the next three months—the biggest such percentage in nearly a year and one that far outweighs the miniscule 5% who see some decline ahead.

Some of the optimism may be due to the fact that service centers have been generally outpacing the overall steel market. Last year they managed to register a big 18%-plus gain—with the help of new emphasis on just-in-time deliveries. This was far above the 12% advance in overall steel consumption over the same period.

It is not surprising that more muted optimism is voiced by purchasing executives responding to a new NAPM steel survey. Specifically, only 18% plan to increase their steel buys over the next three months. But even this figure is significant because it marks the first time since last July that anticipated increases managed to balance out planned decreases.

This cautious demand view is seconded by most producers who see 1985 shaping up as just a moderately better year.

Other mill forecasts are generally in the same ballpark, and most are predicating the improvement on a substantial drop in imports rather than any significant jump in consumption.

At any rate, service center optimism remains quite strong. Current predictions suggest that distribu-

tor sales will rise another 3-4% this year (to about 22 million tons)—thus adding to its 31% market share, itself a new peak.

Inventories: Things are pretty much where they have been over the last few months—as days supply remains fairly constant on both levels.

Availability: Clear sailing as service centers for the fifth consecutive month failed to note a single product that might be tight in ensuing months.

Import prices: Cut-rate incoming shipments are still very much available despite the imposition of new voluntary quotas. In the case of buyers, for instance, three out of four noted a price advantage over comparable domestic products.

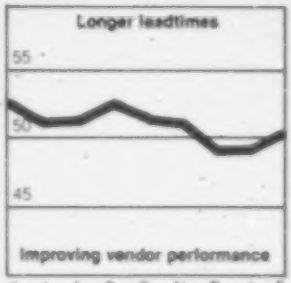
Service centers who look at carbon and stainless steel separately tell much the same story, though the percentage who are getting imports at more than 10% under comparable domestic lines has diminished a bit: only 10% of the responding distributors in the case of carbon (vs 13% a month earlier) and 25% in the case of stainless (vs 31% a month earlier).

These same distributors also indicate some shift in procurement strategy further on down the pike, probably because they figure the new import curbs will eventually have an impact. Thus 31% expect to reduce their dependence on foreign metal over the next six months—a figure made even more dramatic by the fact that not one single firm plans on increased dependency over this same period.

Monthly procurement status report

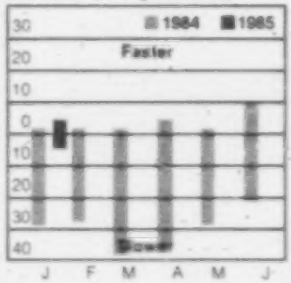
Leadtime index

A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to „stretch out. Below "50" suggests improving vendor performance

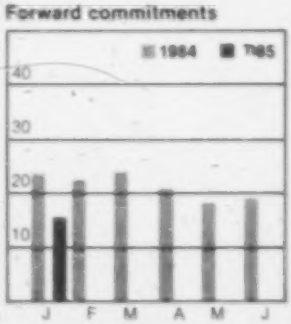


Delivery performance

(Percent reporting deliveries)

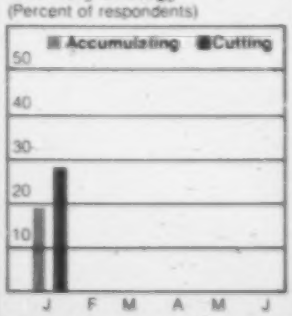


Forward commitments



Inventory strategy

(Percent of respondents)



Source: NAPM

PROCUREMENT STATUS

Everything is under control

Despite early 1985 demand gains, leadtimes remain under control—holding at about where they were during the latter part of last year.

Buyers responding to *PW*'s latest monthly procurement survey seem to be in agreement on this point. They say that several factors are keeping things relatively quiet: the absence of big strikes, better communication between themselves and vendors, and the absence of severe winter storms.

Changes in leadtimes in recent months have been mostly moderate—and have tended to balance out. It is not surprising that *PW*'s exclusive leadtime index is again at the neutral 50 mark. This means no big changes in leads for the average industrial purchase mix.

The NAPM's speed-of-delivery yardstick also shows this same neutrality. Some 90% of respondents report no change and the remaining 10% are equally split between those reporting speedups and those reporting slowdowns.

And if further confirmation is needed, look at current buyer inventory policy. Despite rising production schedules, the average PM has actually been cutting stocks. This is a good sign that he knows he can get any "fill-in" shipments.

Again survey findings tell the story. At latest report, some 28% of PMs queried were reducing inventories compared to the 19% who said they were adding. This marks the fifth consecutive month that parers have been outnumbering accumulators.

Other signs of a "no sweat" situation: Only 16% of buyers say they are committing 90 days or more in advance for production materials. This is down substantially from the 24% reading of two months ago. There has also been a drop in forward commitments on MRO items over this period.

Comments by buyers suggest that they expect this relatively problem-free situation to continue.

Leadtimes and availability

Chicago: Reduced waits (in weeks) are noted for several electronic items: batteries (12-22), capacitors (10-16), and coils (4-12). Also in are aluminum bars (8), aluminum common alloy and heat-treated plates (12), and special copper rods (3-5). Moving out are steel c-r sheets (6) and PVC resins (6).

Cleveland: Some modest improvement (in weeks) is noted for coil coating paint (5), maintenance paint (3), and cold-finished aluminum (10-12). Other metals are mostly available on demand. So is plywood. But hardwood, softwood, corrugated, and plastic shrink film take three weeks.

Los Angeles: Sample waits for metal products (in weeks): grey iron castings (7-8), brass castings (8-10), aluminum sheet (13), aluminum pipe (17). No problems in other areas either: paints (4), semiconductors (12), passive components (18), and electrical equipment (20-24).

BUSINESS DATATRAK

Houston: Another month of little change, with these weekly leads: high-pressure heat exchangers (26-35), electronic components (6-8), domestic drilling pipe (12), MRO items (0-3), nonferrous metals (0-2), centrifugal compressors (45-56), forgings (5-7), control valves (8-26), and mill steel (4).

Philadelphia: Standard reinforced tape has come in to 1 week. Several other items have stretched: chemicals for foam-in-place (1), foam (1), and wooden pallets (1-2). Tall oil and fatty acid are also out, sometimes even on allocation. Steel and nonferrous waits remain unchanged.

Pittsburgh: Silicon has come in to 3 weeks. But other alloying materials range from 2 weeks for manganese, nickel, zinc, and lead—to 4 for magnesium. Mill quantities of fabricated copper takes 6 weeks. Other typical leads: corrugated and folding boxes (3-4), drums (1), lumber (3-4), and steel strapping (2-3).

Leadtimes (in weeks)

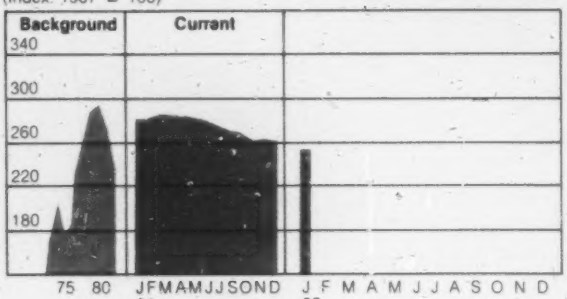
	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4½	9	9
C-R Sheet (Chgo)	6	5	5
Plate (Phil)	3½	10	10
Plate (Chgo)	2½	2½	2½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	7	7	7
H-R Bars (Chgo)	3	3	3
Cold-Drawn Bars (Phil)	7	7	7
Galvanized (LA)	14	14	6
Galvanized (Chgo)	6	6	6
Structurals (Chgo)	4½	3½	3½
Structurals (Hous)	17	17	17
Tubing (Phil)	7	7	7
Grey Iron Castings (LA)	7½	7½	5
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	13	13	13
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	13	17	17
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	17	17	20
Motors (Phil)	15	15	15
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	10	10	20
Relays (Chgo)	15	15	15
Resistors (Chgo)	12	12	14
Resistors, Wirebound (Phil)	10	10	10
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	3½	3½	3½
Plywood (Chgo)	2	2	2
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	3	3	3
Softwood (Phil)	¼	¼	¼
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Napthalene (Chgo)	2	2	2
Paint (LA)	5	5	5
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	3	3½	3½
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	3	3	3
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	6	3	1
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	3	3	3
Cartons, Corrugated (Hous)	3	3	3
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	6	6	4
Shrink Film (Clev)	3	3	3
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	2½	2½	2½
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NON-FERROUS			
Aluminum Coil (Chgo)	11	11	13
Aluminum Plate (Chgo)	12	14	14
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	11	11	13
Brass Castings (LA)	9	9	7
Brass Rods (Chgo)	4	6	6
Brass Sheet (Chgo)	7	7	9
Brass Tube (Chgo)	5	5	5
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	5½	5½	5½
Copper Tube (Phil)	6	6	6
Lead (Pgh)	2	2	2
Magnesium (Pgh)	2	4	4
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	3	3	3
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	2	2	2
MISCELLANEOUS			
Bearings, Domestic (Phil)	22	22	22
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	50	50	48
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	7	7	7
Fasteners, Std. (Phil)	4	4	2½
Heat Exchangers, Carbon-alloy Steel (Hous)	20	20	20
Heat Exchangers, Hi-pressure (Hous)	31	31	43
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	2½	2½	2
Pumps (Hous)	35	35	35
Pumps (LA)	9	9	9
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	17	17	17
Welding Supplies (Hous)	5	5	5

BUSINESS DATATRAK

Raw material price barometer

(Index: 1967 = 100)

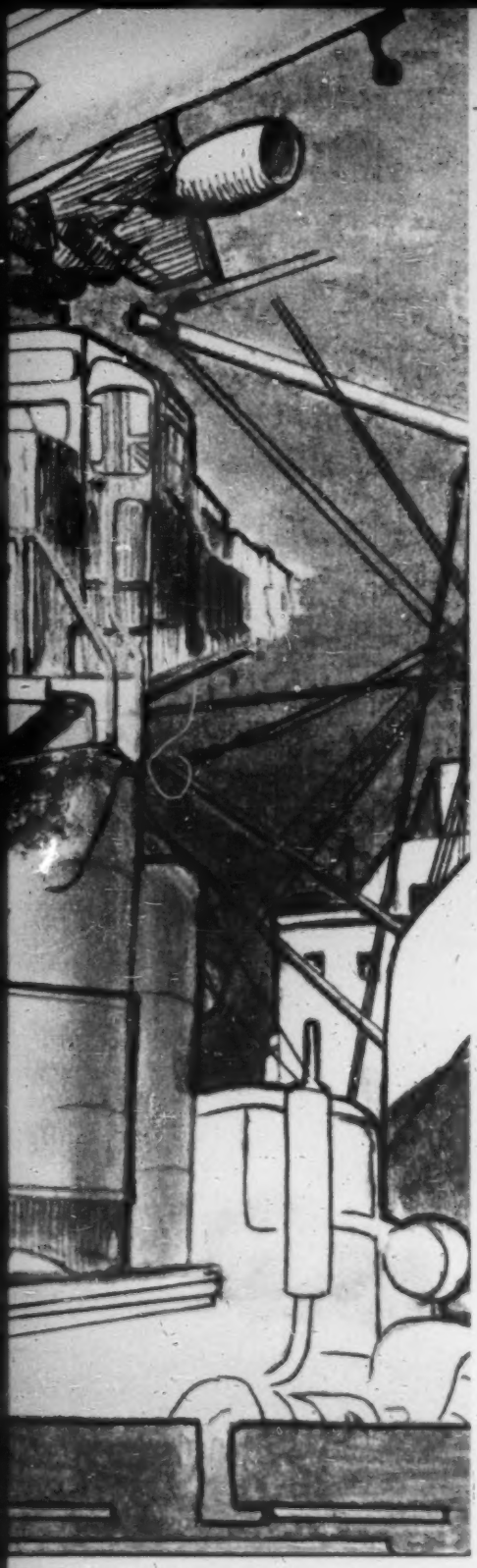
Latest month	255.8
Month before	261.9
Year ago	283.6



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	347.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	25.10	25.10	24.40
Steel, bars, dlvd. Phila., cwt., merchant quality	23.95	23.95	17.50
Steel, bars, Pitts., cwt.	23.95	23.95	17.50
Steel, bars, C.R., Pitts., cwt.	29.25	29.25	26.00
Steel, plates, Pitts., cwt.	23.25	23.25	23.25
Steel, plates, H.R., Pitts., cwt.	23.25	23.25	23.25
Steel, sheets, C.R., Detroit, cwt.	27.10	27.10	27.10
Steel, strip, C.R., Chi., cwt.	35.30	35.30	35.30
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	0.510	0.490	0.745
Antimony, in alloy, lb.	2.00	2.00	2.00
Beryllium-copper, cast ingot, lb.	5.35	5.20	5.20
Brass, red, 85%, [sheet], lb.	1.28	1.26	1.22
Brass, yellow, [sheet], lb.	1.23	1.21	1.17
Cadmium, ton lots, lb.	1.25	1.25	1.25
Copper, electrolytic, wire bars, refd., lb.	0.65	0.64	0.68
Copper sheet, over 24 in., lb.	1.37	1.35	1.31
Lead, common, N.Y., lb.	0.19	0.18	0.24
Magnesium, pig ingot, [99.8%], lb.	1.48	1.48	1.43
Mercury, 20 fl. lots, N.Y., fl.	310.00	312.00	292.00
Molybdenum Climax Oxide/bags, lb.	4.65	4.65	4.65
Nickel, electrolytic, producer, lb.	3.20	3.20	3.20
Platinum, producer, oz.	475.00	475.00	475.00
Silver, N.Y., oz.	6.10	6.13	8.75
Tin, Straights, N.Y., lb.	5.65	5.76	6.23
Zinc, Prime West, East St. Louis, lb.	0.43	0.45	0.51
Zinc, die casting alloy, No. 3, lb.	0.495	0.515	0.575
PAPER			
Uncoated book #3 offset, ton	850.00	850.00	810.00
Watermarked bond, ton	985.00	985.00	915.00
Gummed sealing tape, carton	16.25	16.25	15.45
Boxboard, mach. clay ctd. recycled sheets 80 bright, .016, ton	495.00	495.00	475.00
Wrapping paper, std. distributor cost, kraft, basis wt. 50 lb., roll	28.00	28.00	28.00
Kraft linerboard, 42 lb., unbleached, ton	320.00	320.00	320.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	0.383	0.397	0.301
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.03	1.04	1.02
Cotton middling, 1", N.Y., lb.	0.598	0.621	0.697
Printcloth, 48", 80x80, N.Y., spot, yd.	0.71	0.78	0.85
Army duck, 37", 13 oz., yd.	1.96	1.78	1.79
Blended printcloth, 64", 78x54, yd.	0.74	0.70	0.72
20s combed yarns	2.12	2.12	2.14
Wool tops, N.Y., lb.	3.60	3.60	3.60
CHEMICALS			
Acrylonitrile, tanks, lb.	0.455	0.455	0.430
Ammonia, anhydrous, fertilizer, wholesale, tanks, ton	210.00	210.00	195.00
Benzene, petroleum, tanks, Houston, gal.	1.17	1.15	1.40
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	0.58	0.58	0.58
Formaldehyde, USP, 37% [12% to 15% meth.], tanks, lb.	0.106	0.106	0.106
Glycerine, synthetic, tanks, lb.	0.86	0.81	0.81
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	0.54	0.54	0.45
Naphthalene, crude, tanks, lb.	0.22	0.22	0.22
Phthalic anhydride, tanks, lb.	0.305	0.305	0.305
Polyethylene resin, low density liner film grade (market price), lb.	0.29	0.29	0.42
Polypropylene, homopolymer grade (market price), lb.	0.34	0.34	0.40
Polystyrene, general purpose grade (market price) lb.	0.35	0.35	0.42
Shellac, bone dry, N.Y., lb.	1.65	1.65	1.65
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	0.35	0.35	0.35
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	157.50	157.50	132.50
Sulphuric acid, 66%, commercial, tanks, ton	56.85	56.85	56.35
Titanium dioxide, anatase, reg., carlots lb.	0.69	0.69	0.69
Xylene tanks, gal.	1.26	1.26	1.35
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	301.70	308.75	313.75
Lumber, 2x2, pine, mbf, cl	300.40	288.15	314.05
Plywood, plyform, ¾", msf, cl	563.00	572.60	559.55
Plywood, ⅜", msf, cl	375.10	377.95	348.50
Cement, bulk, ton, tl	64.46	63.74	62.35
Sand, ton, cl	6.20	6.23	6.15
Ready-mix concrete, 3,000 psi/cu.yd., 15 cu. yd.	47.66	47.62	45.80
Crushed stone, 1½", ton, cl	7.52	7.47	8.00
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.79	0.79	0.76
Gypsum sheathing, ½"x1"x8", msf, tl	205.44	206.40	198.97
Brick, common, per thousand, tl	179.15	178.03	172.50
Asphalt paving, AC-20	173.17	172.97	161.31
Concrete sewer pipe, 12", prem. joint, per foot, cl	6.97	7.15	6.79
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf, bbl.	26.25	26.25	26.20
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	31.00	31.00	32.90
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	0.725	0.705	0.738
Gasoline, 94 oct., reg., Chi., tank car, gal.	0.699	0.674	0.808
Heating oil, No. 2, Chi., bulk, gal.	0.730	0.750	0.854
Heating oil, No. 2, N.Y., bulk, gal.	0.808	0.808	0.825
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.25
Jet kerosene, gal.	0.770	0.755	0.825
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	.388	0.420	0.460
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	87.00	85.00	105.00
Steel, No. 1, hvy., dlvd., Chi., ton	81.00	78.00	88.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	0.560	0.535	0.590
Copper, No. 2, East, wholesale buy,	0.475	0.445	0.505
Brass, red, East, wholesale buy, dlvd., lb.	0.520	0.495	0.550
Brass, yellow, East, wholesale buy, dlvd., lb.	0.340	0.330	0.325
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	0.335	0.335	0.500
Alum., mixed clip, E., wholesale buy, dlvd., lb.	0.350	0.355	0.515
Zinc, old, East, wholesale buy, dlvd., lb.	0.140	0.160	0.185
Lead, clean solids, East, wholesale buy, dlvd., lb.	0.110	0.100	0.140
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	15.00	15.00	30.00
Paper, old corrug. box, dlr., N.Y., ton	10.00	10.00	25.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	0.12	0.12	0.13
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	0.34	0.34	0.34

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]



only one rude or incompetent employee to lose a big customer."

Anything that ties the customer directly into a transportation company is being seriously considered. With computerized telephone-linked rating and pricing systems, customers can dial into the carrier's computer and find out the latest rates, check on the progress of a shipment, or verify transit routes. Or at considerably greater expense, many companies are providing direct computer hookups with their better customers.

Reliance on the latest in technology to improve their operations and service isn't cheap. And several companies say that they plan to make hefty R&D expenditures to stay on top of technological developments.

Companies that offer customers rail, truck, barge, and air transportation options will, in the opinion of many of these experts, have a competitive edge in the market.

In any case, their major objective seems to be to simplify the whole process of doing business with them. And that, after all, is the same reason that *PurchasingWorld's* editors have collected this information for you. ***PW***

Quarterly transportation report

Rate slowdowns seen for 1985

More good news on the freight front. Rate hikes for 1985 will probably be considerably under projections made just a few months ago. But look out in 1986, advances could be a bit higher than previously forecast.

The new estimates—courtesy of Wharton Econometrics—put the

Buyers' guide to 1985 carrier services

American Freight Systems
AFS has instituted a computerized rate system designed to simplify its rate schedules for its customers. The company has also begun a Quality/Productivity program for its employees. Worker performance will be judged on a terminal-by-terminal basis using a series of indexes.
Circle P16

Carolina Freight
Three-fold thrust for 1985: 1) Service, 2) Systems, and 3) Price. A new computerized rating program, called SALLY for short, allows customers to dial into the system at any time for up-to-date prices or to track shipments. The company also plans to spend more time and money on R&D in areas like bar code technology. **Circle P17**

CSX
With the addition of barge service along the Ohio-Mississippi River system, CSX can now call itself a total intermodal shipper. On one bill of lading a shipment may move continuously from rail to barge to truck and then to distribution warehouses. Its slogan is "One call for the whole haul." **Circle P18**

Duff Trucking
Duff's 1985 Target Service Plan is a determined effort to achieve 100% on-time delivery while saving time, money, and effort for both the customer and the company. Its motto—"On-time delivery—every time."
Circle P19

Hall's Motor Transit
Hall's believes that profit begins in the purchasing department so they've developed a computer aided analysis service that specializes in the control of incoming freight costs. Inbound Control Systems (ICS) consultants will show purchasing pros how to better control the transport of inbound goods from outside vendors. **Circle P29**

average overall increase in *PurchasingWorld's* exclusive freight rate index at only 3.4% for 1985. That's down significantly from 6% increases projected last fall.

Incidentally, the slowdown may already be under way. During third quarter 1984 (the latest figures available) truck averages dipped 3.3% at annual rate, with barge tabs off by 10%.

Why the big downward shift in 1985 projections? Much of it, say Wharton analysts, can be traced to substantially lower energy price projections. Specifically, OPEC's infighting has already brought crude oil tags down, with further reductions expected. And when oil falls, the cost of almost every other transportation input follows suit.

Another factor holding 1985 hikes to a minimum is the trend toward smaller-than-expected labor cost increases which are pegged at 5.2% for 1986—up a bit more than a percentage point from the previously estimated advance. Behind this shift: changed economic ground rules. More specifically, analysts at Wharton Econometrics who once saw a recession on the way now see continued growth. / GNP growth rates at the end of next year could slow down to 1% or under at annual rate for one or two quarters. But that is the extent of any anticipated slowdown. As a result, freight rates should move up at a slightly faster pace rather than slow down as projected earlier.

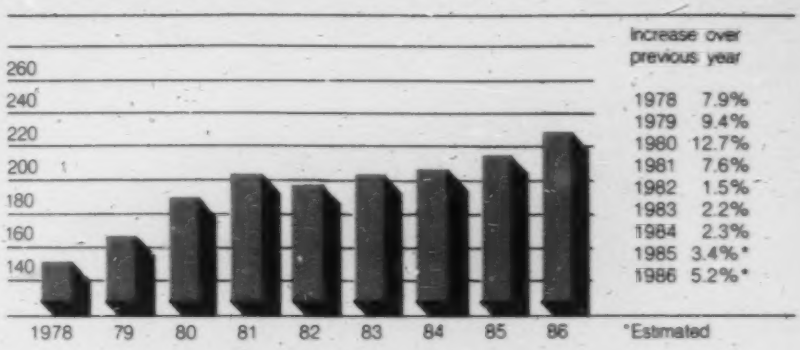
And what is true for overall freight holds true for each of the key transportation modes. Current projections for rail, truck, barge, and air are all toned down for 1985 and beefed up for 1986.

Here's a more detailed look at the Wharton projections in each sector:

Rail: Traffic growth has slowed from its hectic first-half 1984 pace. The value of the rail industry's services actually fell 1% in the third quarter as economic growth took a breather.

...continued

PurchasingWorld freight rate index



Leaseway Transportation
Single-source leasing and its new flat-bed division are expected to be growth areas for Leaseway in 1985. Interest in contract carriage is also expected to grow as many companies delegate responsibility for transportation in order to free assets that would otherwise be spent on fleets. **Circle P20**

McLean
New for 1985—a zip code rating program designed to simplify the rating process; a new express lane service which incorporates closely monitored direct loading in key markets within the McLean nationwide network; and a renewed commitment to customer satisfaction at each point of service. **Circle P21**

Roadway Express
During the months of February and March Roadway will donate 7¢ for each shipment moving along the East Coast (from Florida to Maine) to a fund for the renovation of the Statue of Liberty and four other national monuments. The program, entitled "Give Liberty a Lift," is expected to raise over $100,000. This program is one of a series emphasizing different parts of the country in sales efforts. **Circle P22**

Rollins
Rollins expects that its major area of growth will be in the area of single-source leasing of both trucks and drivers. To meet the increased demand they have launched a strong sales training and support program. **Circle P23**

Santa Fe
New for 1985 is a rail intermodal transportation service that includes centralized intermodal terminals from Chicago to Los Angeles and throughout the southwest region. Also new is a telephone linked car location information service. **Circle P24**

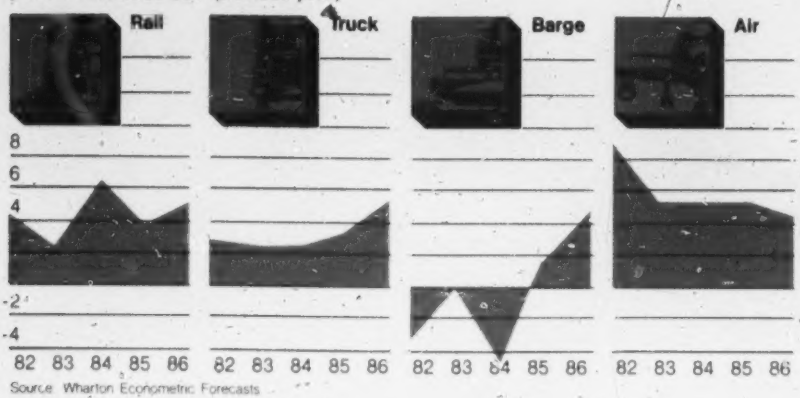
TNT Companies
TNT has reorganized its transportation group to achieve higher efficiency of operations. It is also pushing a new carrier concept that will enable customers to route their shipments through regional or interregional carriers with one call and one bill of lading. TNT Companies are now able to handle long cross country hauls as well as shorter regional hauls. **Circle P25**

United Van Lines
United has launched a program to improve the performance of its agents and has declared 1985 "The Year of the Van Operators." Strong marketing efforts will be made for its subsidiaries—Matlock Trailer, Transprotection (an insurance company), and United's own leasing company. Quality shipping of special commodities is a priority item. **Circle P26**

Yellow Freight
Coverage will be expanded further through terminal openings and additional direct service points. The company also expects to add more twin trailers to its fleet in order to reduce claims and improve productivity and service. Electronic communication capability will be enhanced. **Circle P27**

Freight cost outlook by mode

(Percent increase over previous year)



Source: Wharton Econometric Forecasts

Ton-miles, however, still managed an impressive 10.6% advance for the year. And piggyback remains the hot rail story—with ton miles in this subsector up more than 14% in 1984.

Nevertheless, the big rate hikes of early 1984 seem to be over. The average should rise only 2% at annual rate over the last six months.

Quarterly increases should build slowly to a 5% rate by the end of the current year. But even so, the average for the year is put at only 4%. 1986 hikes are expected to average about 5%.

Trucking: Tonnage continues to run well ahead of year-ago levels for both Class I and Class II carriers. Freight totals in recent months, for example, have been up about 8% compared to levels of a year ago. Less-than-truckload lots (LTL) have outpaced truckloads (TL).

Meanwhile, rates have moved in concert with general economic activity—showing a hefty 8.3% increase at annual rate in the first half of 1984—only to fall 3.3% in the third quarter as general business activity slows down. A moderate advance of only 2.2% was posted for 1984 over 1983.

In 1985, the low starting point for rates should hold the average annual hike to 3.6%—although quarterly advances will build up to 5.6% by the fourth quarter. And for 1986, the average rate increase is projected at 5.4%.

Air: Traffic has been accelerating. Ditto rates, which have been rising to reflect that activity. Freight ton-miles carried by aircraft probably exceed 6.5 billion for 1984—up one-half billion tons or 8% from last year's level.

Prices over the same 12-month period rose 5.6%. Increases should continue at the same pace in 1985 and then slow to about 4.5% in 1986.

Barge: This sector should continue to show the smallest price increases in both 1985 and 1986 (after logging what looks to be a 4.5% decline in 1984). Continuing overcapacity and cutthroat interindustry competition should hold hikes to 1.7% in 1985 and to 4.6% in 1986. ***PW***

Survey of the month

Transportation buyers enjoy enviable position

Recent freight rate trends tell the story. Despite a big 7-9% increase in ton-miles shipped last year, buyers managed to hold down transportation rate increases to around 2.5%.

In some cases, deregulation coupled with hard-nosed bargaining for big discounts has resulted in even smaller hikes, holding some overall costs pretty much where they were before the business upturn began.

Significantly, freight buyers responding to a new nationwide *PurchasingWorld* survey are very optimistic about 1985. On average, they expect some modest acceleration. But most expect to hold hikes at or under the general inflation rate.

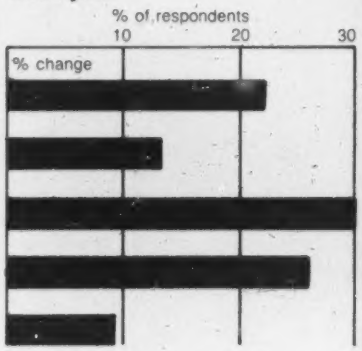
In a nutshell, buyers say the picture is rosy for transportation services—a segment of the economy which in recent years has accounted for about 10% of the GNP. Here's a capsule summary of their thinking:

■ **Overall 1985 increases** The overall advance is put at only 3%. About 30% of those queried hope to escape without any appreciable advance over the current year. And about one in four actually hopes to better their 1984 performance.

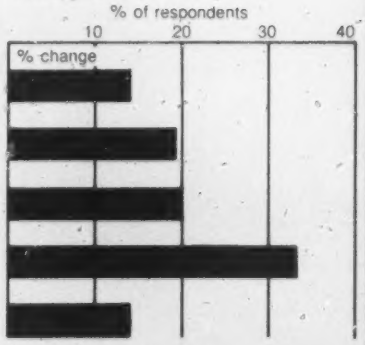
These optimistic *PW* survey pro-

Freight cost trends: the buyer view

Last year



This year



1985 vs. 1984

Source: PurchasingWorld

jections are remarkably close to the ones provided by Wharton Econometrics' forecasts in this issue—which projected 2.3% for 1984 and 3.4% for 1985.

■ **1985 trucking rates:** *PW* respondents see rate increases averaging in the 3-5% range—with the lower end reserved for truckload (TL) shipments and the higher end for less-than-truckload (LTL) quantities. Probable reason for the difference: Truckers, forced into giving concessions to big shippers, will probably try to make up the difference by charging more to smaller shippers with less bargaining leverage.

Again, this 3-5% overall increase coincides with the Wharton forecast which pegs the 1985 truck increase at 3.6%. Buyers agree there are still plenty of opportunities to whittle at rates. As one puts it: "Competition should put heavy pressure on published tariffs. We fully expect to continue getting the 20% discounts that have prevailed over the past year or so."

■ **1985 rail rates:** The average advance suggested by the *PW* survey is about 3%—less than half the 6.5% posted in 1984. This is not only confirmed by Wharton's 4% estimate, but a new Standard & Poor's study sees the average revenue per ton mile rising at only 2%.

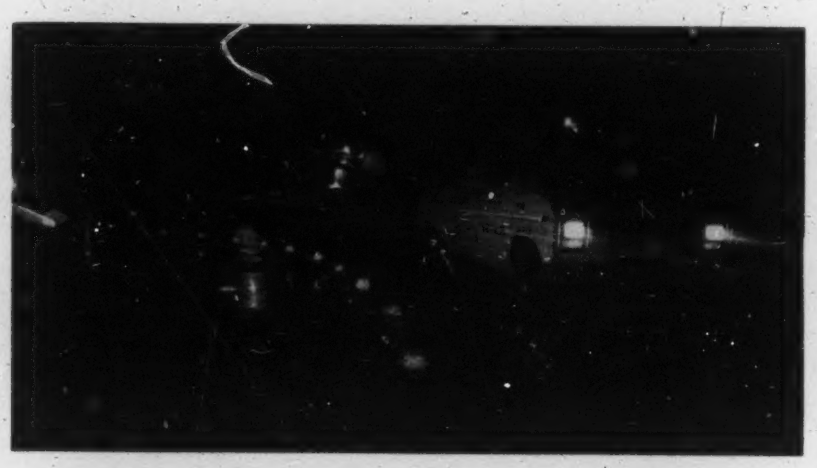
■ **Other 1985 rates:** No big runup is expected in the barge, ocean shipping, and air sectors. Again, a significant number of respondents hope to keep these tariffs at or under year-earlier levels.

Credit much of the success in holding the price line to industry deregulation. It is worth noting that for the first time in 80 years, the majority—about 60%—of freight moving in this country is free of governmental interference.

Whatever the percentages, it is apparent freight buyers are leaving no stone unturned to contain costs. One freight manager, for example, has set a program in motion that involves use of fewer carriers, more annual contracts, caps on increases, and efforts to mesh company operations into carrier potential.

In this traffic manager's words, "Our aim is to cut drastically our carrier base in order to increase our bargaining leverage. In effect, we'll be a better customer with long-range plans to match our needs with carrier routes. That will result in greater economies for everybody."

Other cost-cutting strategies noted by the survey include (1) intermodal shifts—many of these involving piggyback operations, (2) shifts away from common carriers to private haul, (3) consolidation of loads in a given geographical area, and (4) negotiations to nail down good backhaul deals. ***PW***



Package air express growth offers new options for buyers

Strong competition, deep discounts for volume, and new services mark one of the fastest growing areas in transportation.

Thomas F. Dillon C.P.M., senior editor

The air package express business is booming. Annual growth rates in the 40-50% range, or even more, are not unusual for some companies. The industry is optimistic, innovative, and highly competitive. All of which spells good news for buyers.

What can customers expect in the near future? Industry executives interviewed by *PurchasingWorld* seem to agree on the following prospects:

■ **Rate stability:** Any increases to be slight.

■ **Broader geographic coverage:** More carriers are planning to offer international services—and all carriers are looking to fill gaps in their service areas.

■ **More innovative marketing.** Target emphasis is on specific markets, and on specific accounts.

The biggest push, say the experts, will be in the international arena. The main reason for this thrust is the globalization of the U.S. economy with more U.S. companies dependent on overseas suppliers and markets. Also, today's higher valued air express shipments absorb higher transportation costs more readily. The desire of companies to

INDUSTRY OUTLOOK 1985

Most industrial growth solid, but some losses seen

It is looking more like a mixed year for industry-by-industry demand gains.

That's what Uncle Sam's key analysts are projecting in the new *1985 U.S. Industrial Outlook*—a detailed forecast of what lies ahead for over 350 key business sectors. The forecasts suggest that the majority of industries will not come close to equaling their 1984 gains.

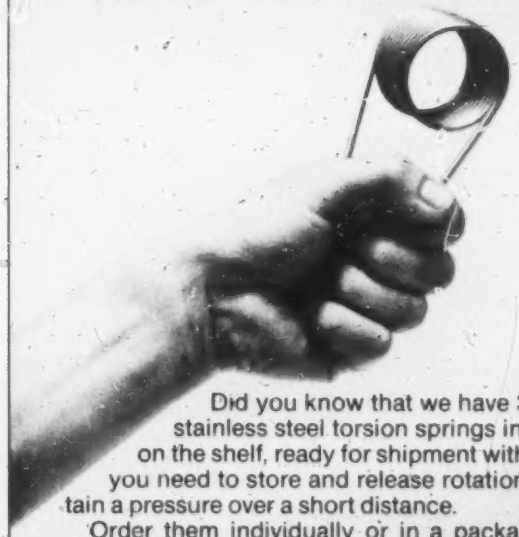
Of course, there are exceptions, particularly in high tech and aerospace industries. But a few industries—including turbines and generators, sawmills, primary zinc, shipbuilding, and electronic tubes—will probably end up in the negative column before the year is out.

All forecasts are based on some key assumptions—namely increases of 4.3% for GNP, 4.5% for the GNP price deflator, 4% for wages, 1.5% for productivity, and the added assumption that unemployment will hold at 7%.

With the above in mind, here are some of the projections—all in real or deflated terms:

- **Steel:** Consumption may reach 100 million tons this year, only about 5% ahead of 1984. Shipments by domestic industry could top 80 million tons, but only if import levels are moderate. Prices, however, are unlikely to firm significantly because of the import situation. Growth for the balance of the decade is seen as moderate, with consumption rising only into the 105-110 million ton/year range.
- **Ferrous castings:** Continued recovery from the severe recession of 1982 is expected, though at moderating rates, with total shipments put at about 13 million tons this year—about 4% above 1984. The same annual rate of increase is anticipated through 1990 when totals should reach 16 million tons.
- **Copper:** Refined use will rise about 3% this year to about 2.4 million tons. Prices could edge up a bit, with tags not rising much above production costs. Annual U.S. output could fall by as much as 7% a year. Looking beyond 1985, declines in use should continue—perhaps as much as 7% by the end of the decade. After that, further drops could be in the offing as fibre optics gain strength.
- **Aluminum:** Look for a 3% gain in shipments (to 16 billion lb). But this will be well under the 1984 advance. In the longer term, all signs point to about a 3.5% annual rate of gain through 1989—as per car use grows from 137 lb to 200 lb. U.S. primary capacity should decline as imports become increasingly important.
- **Lead:** A moderating economy, reduced lead in gasoline, and a decline in poundage per battery should mean a 2.5% decline in consumption this year (to about 1.24 million tons). Long run usage should grow less than 1% per year, bringing total consumption to only about 1.26 million tons by the end of the decade.
- **Zinc:** A small decline in residential construction, combined with modest gains in nonresidential building and autos, should result in only a 1% increase in slab consumption (to 970,000 tons) in 1985. In the longer run, however, the metal (helped by growing use of galvanized steel) should advance at more than a 2% annual rate, bringing the 1989 total to nearly 1.1 tons.
- **Nonferrous castings:** Sales could be up a strong 8% this year (to 2.9 million tons) thanks to increased auto volume and a higher percentage of lightweight castings used in each car. But strong global competition is expected over the next few years, so imports may eat into the domestic market.
- **Metalworking equipment:** Shipments will be up 6% this year. But the machine tool segment will continue to operate well below capacity levels, with exports expected to lag and imports expected to continue to increase as developed and newly developed countries seek larger shares of the U.S. market.
- **General industrial machinery:** A 4% growth rate is seen for 1985, somewhat under last year's ad-

HERE'S A NEW TWIST...



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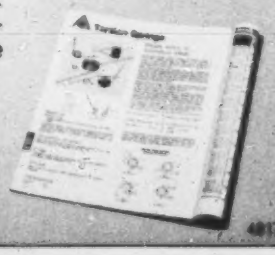

Associated Spring BARNES GROUP INC

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Circle 347 on card

How 1985 demands shape up

(% change in real terms)

Cement	4
Ready-mix concrete	4
Gypsum products	-2
Lumber	-1½
Pallets & skids	4
Softwood plywood	-7½
Corrugated boxes	4½
Folding paperboard boxes	2
Setup paperboard boxes	0
Fiber cans & drums	4
Metal cans	1
Glass containers	1
Plastic bottles	6
Coal	5
Refined petroleum products	0
Petrochemicals	4½
Plastic resins	6
Synthetic rubber	½
Paints	2
Adhesives & sealants	9
Hose & belting	2
Steel	6
Ferrous castings	4
Primary copper	10
Primary lead	44
Primary zinc	-3
Primary aluminum	3½
Nonferrous castings	8
Metal-cutting machine tools	9
Metal-forming machine tools	6½
Tools, dies, jigs	5½
Power driven hand tools	7
Industrial furnaces	8
Construction machinery	5
Pumps & compressors	4½
Internal combustion engine	7
Fans & blowers	3
Refrigeration & heating equipment	3
Farm machinery	5
Mining machinery	6½
Oil field machinery	6½
Food products machinery	3
Textile machinery	3
Paper machinery	3½
Printing machinery	4
Screw machine products	10
Fasteners	3
Valves & fittings	7
Bearings	6
Computer equipment	18
Radio & TV equipment	7½
Telephone & telephone equipment	8
Semiconductors	43½
Electronic connectors	6
Electronic resistors	-½
Electron tubes	-4
Measure & control instruments	5
Surgical & medical instruments	7
Dental equipment	2½
Photo equipment	5
Motor vehicles	4½
Aircraft	20
Shipbuilding	-4
Rail freight cars	108
Household furniture	4
Household appliances	4
Consumer electronics	5
Bicycles	3

Source: US Commerce Department

vance. More specifically, here's how subgroups will fare over the current year: construction machinery (5%), pumps and compressors (5%), combustion engines (7%), and refrigeration and heating equipment (3%).

■ **Special industrial machinery:** Shipments will be up 5%, a bit above last year's 4% advance. Exports will be up 11% and will account for more than 25% of total shipments. Imports will be up 12%. Here's a more detailed shipment rundown for 1985: farm machinery (5%), mining and oil field machinery (6.7%), food products and textile machinery (3.2%), paper industry machinery (3.6%), and printing equipment (4.0%).

■ **Metal components:** Figure on a 6.4% increase, down slightly from last year's 6.9% figure. But imports will be up 19%, on top of last year's 35% advance. Specific subsector shipments for 1985 are as follows: screw machine products (10.0%), industrial fasteners (3.0%), valves and fittings (7.1%), and bearings (6.0%).

■ **Electronic components:** A 38% increase in shipments is forecast, with good, albeit decelerating gains seen for semiconductors (43.5%). Much slower activity is seen for connectors (5.9%), capacitors (3.0%), resistors (-1.5%), and electron tubes (-3.9%).

■ **Computer equipment:** An 18% increase is projected, almost as big as last year's 20% jump. Exports will grow about 30%. But imports are expected to be up substantially too. Major product introductions this year include a line of big processors with significant price and performance improvements. Personal computer sales will ease off a bit, but should still remain in the high 15-20% range. ***PW***

Directory to aid government buying

The first two in a new series of directories called Procurement Planning Services Directories (PPSD) make their appearance in March. According to co-publishers Dun & Bradstreet and its publishing subsidiary Reuben H. Donnelley, the first numbers cover Information Services and Management Services.

Publication date of the directories in March is intended to coincide with the "prime planning" period for about 4,000 procurement officers in more than 1,200 federal contracting offices. According to Donnelley vice president James K. Kneussl Jr., these Federal agencies spend more than $2 billion a year on information and management services.

The directories, which will be distributed to government agencies free of charge, will provide verified source listings of companies that have established a history of business experience with the government, articles on the "how to" of procurement, and paid advertising by suppliers wishing to reach decision makers in government buying.

For further information on the Procurement Planning Services Directories **Circle P166 on card**

New newsletter from Ameritech

Ameritech Services Inc. is publishing a quarterly newsletter, called *INFOTECH*, to provide technical information about its business. Ameritech is comprised of five Bell Operating Companies: Illinois Bell, Indiana Bell, Michigan Bell, Ohio Bell, and Wisconsin Bell.

The newsletter is aimed at keeping company presidents, national accounts managers, engineers, and purchasing people informed about the latest developments in both products and product information publications.

INFOTECH's first issue included articles on equal access plans, the new Simplified Message Desk Data Link Interface specification, and a market analysis of ESS software feature needs.

Future issues will include stories on the equal access plan, a data-over-voice specification, the new Dial 1 Plus service, and buyer contacts for more than 20 commodity categories including ESS switching, power, customer premise equipment, paper, tools, chemicals, plastics and cable.

Subscriptions are $18 a year. A complimentary copy of *INFOTECH* may be obtained using the reader service card. **Circle P169 on card.**